



# Memorandum

Bureau of the Public Debt

Date: August 6, 2004

To: Chief Operating Officers  
Treasury Franchise Fund Members

From: Matt Bumgarner, Supervisory Accountant  
Funds Management Branch

MTB

Subject: FY2004 Year-end Close Schedule

As year-end approaches, I wanted to take some time to review the closing process. There are numerous topics that need to be covered. These include how the accounting system works and the year-end closing process. I will try to address each of the areas that should affect your operations and how it may have changed, if applicable, as well as provide you with the important due dates (See the attached timeline). It is important that you understand this information. If you have any questions or concerns, please do not hesitate to contact Paul or myself.

## ACCOUNTING PERIODS (AP):

We are anticipating that all yearend activity will be posted by the time we close AP SEP/04-04 on **October 4, 2004**. This means that the only items that will be posted to the September adjustment periods (SEP/ADJ/04-04 and SEP/ADJ2/04-04) will be material audit adjustments identified and recommended by our independent auditors. FY2005 beginning balances will be included in the OCT/ADJ/04-05 trial balance.

## YEAR-END CLOSE PROCESS:

As was the case in FY2003, all YE close entries must be recorded prior to the close of the SEP/04-04 AP to achieve the Fund's YE reporting goals. These will include adjustments to your Other Post Employment Benefit (OPEB) costs/financing sources, funded leave liabilities, YE revenue and expense accruals and backing out FY04 commitment documents (PRs). Many of these items will be discussed later in more detail. In addition, your FINAL financial statements will be based on the trial balance of this period.

The SEP/ADJ/04-04 and SEP/ADJ2/04-04 APs will be used only to record material audit adjustments identified and recommended by the independent auditors. You will be notified if any adjustments are made that impact your FINAL financial statements ran in Discoverer on October 5th.

During the year-end close process, your balance sheet accounts (assets, liabilities and equity) are carried forward to the new fiscal year and nominal accounts (revenue and expense accounts) are closed into your equity account. In other words, it moves your profit and loss data into the equity section on the balance sheet as "Current Results of Operations".

#### **OPEN ITEMS:**

Outstanding items such as customer agreements, receivables, advances from and to others, expense accruals, and obligations remain open at year-end. The auditors will review each of these balances in detail. Therefore, it is critical that we continue to conduct thorough reviews of these over the next two months to ensure that these balances remain valid and can be substantiated under audit scrutiny.

As you know, reports that detail your entity's open items have been made available in Discoverer. Beginning with the 2<sup>nd</sup> Qtr of FY 2003, each office has been running them at their convenience and certifying their accuracy on a quarterly/monthly basis.

In accordance with the YE timeline, your entity is required to run these reports and certify their accuracy by **COB September 13<sup>th</sup>** and **October 1<sup>st</sup>**. It is critical that the September 13<sup>th</sup> preliminary review be thorough enough to ensure that only adjustments for changes that occur after that date will be forwarded to ARC for processing on subsequent dates, including October 1<sup>st</sup>.

#### **Accounts Receivables (A/R) & Advances:**

A review of your A/R and advance balances will allow you to ensure you have billed for all of your services. In addition, you should be able to determine if any customers have been billed twice, if advance balances need to be returned or if advance balances need to be applied to revenue. We have had several audit issues involving these balances in the past. Please make sure all A/R and advance balances are supportable and accurate.

As the theme has been the last couple of years, please pay particular attention to aging A/R's from prior years. If you are maintaining A/R balances for revenue earned in fiscal years prior to 2004, the collectability of those funds will be questioned by the auditors. Most of your offices have done a good job of following up on outstanding A/R balances. However, if you are one the entities that continue to maintain balances from old FY's, please take the steps needed to ensure that they are collected or written off over the next couple months.

If you identify prior year A/R's as being uncollectable from non-government customers, the Chief Operating Officer of your entity must submit instructions to ARC to write-off the receivable. When the A/R is written off, the asset will be removed from your balance sheet and bad debts expense in the amount of the A/R will be recorded. This will affect your current year profit and loss statement.

If you believe that collectable prior year A/R's exist from government customers, you must work with your customer and instruct your technician to collect the funds via IPAC or credit card no later than **September 22<sup>th</sup>**.

If you do not write-off or collect all prior year A/R's before year-end, you must provide us with a justification of why they remain valid but have not been collected as support for the FY2004 audit by COB **September 30<sup>th</sup>**.

### **Obligations:**

There are circumstances that require that obligation balances remain open at year-end. These are:

1. The period of performance on the order crosses fiscal years. For example, if you entered into a contract for security services from July 1, 2004 through June 30, 2005, any amount remaining on the contract would remain obligated at year-end.
2. An order for goods or services has been placed prior to year-end but has not been received. For example, if you ordered a good/service on September 15 (FY04) and do not receive it until October 20 (FY05), the obligation would remain open at year-end.
3. An order of goods/services has been placed and you estimate the amount received at YE. For example, assume that you have a delivery order with a remaining open balance of \$100,000 and you accrue an estimate of \$90,000 at year-end. The obligation should remain open (open balance would be \$10,000) to ensure that funding is available in the event that the accrual is underestimated.

All other obligation balances should be deobligated.

For obligations that are no longer valid, there are various methods of deobligating them. The correct method to use is determined as follows:

### **BPAs:**

Submit the "Open Obligations" report in the "Federal Status of Funds" Workbook with a column added to the far right identifying the amount to be deobligated to your ARC/FMB accounts payable technician.

### **Interagency Agreements:**

Send the fully executed modification to the interagency agreements to your assigned ARC/FMB accounting technician and lead technician indicating the obligation document number, line, shipment, distribution and amount to be deobligated.

### Simplified Acquisition Obligations (Less than \$100,000):

Submit the “Open Obligations” report in the “Federal Status of Funds” workbook with a column added to the far right identifying the amount to be deobligated to your ARC/FMB accounts payable technician. Your technician will then make a determination as to what actions will be taken next, the actions will be either the technician will deobligate the funds or notify your office that a “Req for Mod” needs to be entered in PRISM for the deobligation.

Note: Some of the simplified acquisitions have option years associated with them, that is the reason you may be asked to process a “Req for Mod” to deobligate the funds.

### Contracts (Fixed Amount and Not-to-Exceed (NTE)):

All contracts (except for conversion documents – which can be identified by an \* as the first character in the document number) must be deobligated by your office preparing a “Req for Mod” in PRISM, once the “Req for Mod” has been approved in your office, ARC’s procurement staff will process the deobligation in PRISM which will then interface to Oracle.

Remember that you should only process deobligations if you are certain that all Supplier invoices applicable to them have been received. If you formally deobligate funds through procurement for fixed amount orders (does not include NTE orders) and then you exceed the remaining amount left on the purchase order, contract, etc. you will be in a claim situation. Therefore, we recommend that you do not formally deobligate funds until you receive the final payment notice from the vendor or unless you are certain that remaining funds are not necessary.

In cases where you are informally deobligating funds (BPA’s, and NTE orders), you are only deobligating the funds in the accounting system. The order still actually has the funds available on it. If you were to exceed the amount in the accounting system and not the amount remaining on the obligation, a claim would not be necessary. We would simply add back sufficient funds that were previously informally deobligated.

It is important to understand the remaining budget spending authority (and the cash) that you have at year-end will carry forward into the next year because of our revolving fund authority. You do not lose these funds at year-end. However, you are still bound by appropriation law, which only allows you to enter into obligations for up to a year. Therefore, you will need to establish new orders if the goods/services are to be extended into the subsequent fiscal year.

### FY2004 Travel Documents:

As indicated in the guidance that you received from ARC’s Travel Services Branch, all travel to be performed before September 30, 2004 must have an approved authorization in Travel Manager by August 31<sup>st</sup>. Travel authorizations create an obligation in Oracle Financials. This will ensure that all travel costs are obligated before the end of the fiscal year.

In addition, authorizations for any unexpected trips need to be processed as soon as possible. ALL fiscal year 2004 travel should be vouchered ASAP. When a travel voucher is processed in Oracle, an expense is recorded. Trips taken in September should be vouchered ASAP but no later than 5 days after completion of the travel. If this process is followed, travel expense accruals will not be necessary.

Please refer to your guidance from the ARC Travel Group for specific instructions and feel free to contact them at (304) 480-8000 if you have any questions.

### **YEAR-END ACCRUALS:**

It is important to be conservative in estimating your year-end accruals. This does not mean that you intentionally change accrual numbers to the extent they do not accurately reflect your business. The principle of conservatism requires that you not over estimate your revenues or under estimate your expenses. As a result, you can be reasonably comfortable that if the actuals differ from the accruals, the amount of net profit you reported in the previous year will only increase.

To ensure that intra-fund activity is in balance at YE and to allow ARC to provide your accrual information to your Treasury partners, we have established two revenue and expense accrual due dates for FY2004. In accordance with the YE timeline, revenue and expense accruals are due as follows:

Intra-fund and Intra-Treasury*	<b>September 24<sup>th</sup></b>
All others **	<b>September 28<sup>th</sup></b>

\* New for this year – All Intra-Treasury revenue and expense accruals must be accompanied by the actual interagency agreement number between you and your customer as well as the service period the revenue or expense is being accrued for. This new requirement has been put in place at your trading partners request to assist them with posting the offsetting revenue or expense accrual on their books.

\*\* These accruals should include non-government, non-treasury federal partners, employee awards, etc.

### **Non-Payroll Expense Accruals:**

You should record expense accruals for all goods and services that **have been received prior to September 30, 2004**, but for which you have not yet been invoiced by the vendor. If you receive and certify an invoice and submit it to you accounting technician before the year-end invoice cutoff date (September 27<sup>th</sup>) the invoice will be processed in AP SEP/04-04 and you will not need to include the item on your expense accruals. All other items must be included in your accruals.

As always, expenses are required to be accrued by individual order and the amount accrued CANNOT EXCEED THE AMOUNT REMAINING ON THE ORDER. This means that you MUST review the “available” balance column on the Obligation tab of your Federal Status of Funds workbook and ensure that your accrual amount is not greater than that amount. If you feel that your YE accrual will be greater than the

balance that is available, you must work with Procurement to get the order amount increased.

As the year closes, budgetary authority will be left in BFY (Budget Fiscal Year) 04 to cover the expense accruals. As payments are made in FY05 against the BFY 04 open obligations and accruals, they will close the outstanding balances and use the budget authority that was held in BFY 04 to pay the expenditures. If the expenditures or payments are more than the open amount obligated and/or accrued, BFY 05 funds will be used to cover the upward adjustment. If the expenditures or payments are less than the open amount obligated and/or accrued and the remaining balances are deobligated or deaccrued, those funds will become available to fund obligations incurred in FY05.

### **Year-End Payroll Accruals:**

Expense accruals for payroll are calculated and recorded by ARC automatically throughout the year and at year-end. The accrual amounts are based on payroll data from the most recently processed payroll and is calculated based on the number of days to accrue. At year-end FY04, ARC will be posting an accrual for the 9 business days of PP19 that fall in FY04 (September 20<sup>th</sup> - 30<sup>th</sup>). The accrual will be calculated as 90% (9 business days/10 business days in the PP) of PP17's actual amounts.

It is important to note that the accrual calculated automatically above does not include non-routine items, like performance or special act awards or non-routine overtime. At YE, there are two methods that can be used to ensure that the expense related to awards approved prior to September 30, 2004 are recorded in the current FY. They are:

1. Submit fully completed and approved award packages to ARC's Human Resources Division by **September 3<sup>rd</sup>**.
2. Submit your accruals to ARC accounting for performance awards, special act awards and non-routine overtime by **September 24<sup>th</sup>**. When submitting awards for accrual using this method, please be certain to provide award amount broken down by BOC.

### **Revenue Accruals:**

Revenue accruals are handled differently because they are not referenced by actual collections in future AP's. The amount of revenue reported for FY04 will be the total amount actually billed and collected through September 30, 2004 and your September revenue accrual (which represents estimates of the amount of revenue that has been earned but not yet billed). Revenue accruals are reversed the first day of the next fiscal year. If the actual bill amount determined and billed in FY05 is greater than or less than your September revenue accrual, the difference will be reflected as an increase or a decrease to your FY05 revenue.

For example, if you accrue \$10,000 in FY04 and bill \$6,000 in FY05, your FY05 revenue would be reduced by \$4,000. We would then determine if a prior period adjustment is necessary at year-end FY05 based on the cumulative totals of ALL Fund members.

**Revenue accruals must be provided at the customer level.** This is needed to breakdown the revenue information for the financial statements and also for eliminating entries. The Fund's external reporting requires a breakdown of revenues and accounts receivable by government and non-government. The government category is further broken down between treasury and non-treasury entities. Generally, government transactions are with Federal entities and non-government transactions are with states, local governments or private organizations.

Note: Non-government activity should be phased out due to guidance from Franchise Fund management that states the Franchise Fund should not be providing services to states, local governments or private organizations.

Transactions between federal government entities are eliminated within the government-wide consolidated financial statements. To accomplish this, we are required to provide Treasury with a listing of all Intra-Government and Intra-Treasury transactions and the year-end balances for those transactions. For example, assume that you are providing services to the IRS and have accounts receivables established at year-end. Appropriate intra-governmental eliminations require that the IRS have an accounts payable on their balance sheet at YE. These balances are then offset when the trial balances are rolled up to the Treasury/government-wide financial statements.

#### **OTHER ACCOUNTING ENTRIES:**

##### **Other Post Employment Benefit (OPEB) Costs/Financing Sources:**

In the SEP/04-04 AP, we will be posting adjustments to the OPEB entries that we have been recording throughout the year. These entries record post employment benefit costs for pension, health, and life insurance benefits. In order to show the "full cost" (to the tax payer) of doing business, each agency is required to recognize their share of the cost of providing pension benefits (CSRS or FERS) to eligible employees. This is accomplished through recognizing an expense for the future cost of post-retirement health and life insurance benefits for their employees while they are still working. However, at the same time an equal amount is recorded as an imputed financing source to offset the expenses, thus the net effect is \$0 on your operations.

The key to understanding these costs is that you are not paying for them and no cash will be disbursed from your account. These costs are paid by other entities through appropriations/funds set up for this purpose. (See example below)

## Statement of Profit & Loss

They net to \$0 and have no impact on Net profit.	Revenue	\$ 30,000	
	Other Financing Sources	1,000	
	Total		\$ 31,000
	Cost of Services Sold	\$ 25,000	
	Operating Expenses	3,000	
	Post Retirement Benefit Costs	1,000	
			\$ 29,000
	Net Profit		\$ 2,000

### Funded Leave Liability:

Each entity within the Treasury Franchise Fund is required to fund certain leave balances accrued by their employees. The balances that require funding are the ones that may someday require an outlay if the employee retires or is no longer actively employed by your entity. These include annual leave, compensatory time earned and restored annual leave.

The leave liability is calculated by multiplying your employees' September 30<sup>th</sup> leave balances by their year-end hourly pay rate. To "fund" this liability, budget authority is set aside, an expense is recorded and a liability placed on your balance sheet.

Each entity already has their FY 03 leave balances funded and FY04 adjustments have been recorded through June 30<sup>th</sup> (July 31<sup>st</sup> for ARC and TAS). Therefore, in the SEP/04-04 AP, we will be adjusting the amount funded by the 4<sup>th</sup> quarter/August and September increase or decrease. For example, if the balance at September 30<sup>th</sup> is greater than the balance currently recorded, an additional expense will be posted and budget authority set aside to fund the additional liability. If the liability is less, budgetary authority will be increased and FY04 expenses will be reduced. Once this liability is calculated, we will provide you with the amount.

### PRELIMINARY AND FINAL FY04 / INITIAL FY05 OPERATING PLANS :

#### Preliminary FY04 Operating Plan Updates:

Preliminary FY04 operating plans should be submitted with your open items certifications that are due by **September 13<sup>th</sup>**. This submission should include all customer agreement activity since the date you last submitted an updated operating plan to your accounting technician.

Please be certain to carefully review your signed agreements and ensure that the amounts reflected on your operating plan are in accordance with your agreements and work with your customers to reduce the agreement amounts on original estimates that are not being realized.

#### Final FY04 Operating Plan Updates:



Your final operating plan update is due by **NOON (EST) on October 1<sup>st</sup>**. It is critical that your final FY04 operating plan be supported by signed agreements with your customers and include only amounts that you believe will be realized. For example, assume that you received a \$500,000 funding document/agreement early in FY04 that covered the period January 1, 2004 thru September 30, 2004.

- If you have billed, collected and accrued only \$250,000 through September 30<sup>th</sup>, you must work with your customer to reduce the agreement amount down to a reasonable level. If care is not taken in this area, you risk becoming anti-deficient if your obligations exceed your authority when the authority is subsequently removed.
- If you have billed, collected and accrued \$480,000 on the agreement you are not required to remove the remaining balance of \$20,000 unless you receive an amended agreement from your customer. Since you should be conservative in estimating your revenue accruals, this amount would be available to enable you to bill your customer in excess of your accrual in FY05.

If you have customer agreements that cross fiscal years, you should include the full amount of these agreements in your FINAL FY04 operating plan. Please note that new agreements that begin on October 1, 2004 must not be included in your FY04 FINAL operating plan but should be included in your initial FY05 Plan (see below).

#### **INITIAL FY05 Operating Plans:**

Initial FY05 Operating plans must be submitted on **October 7<sup>th</sup>**. This submission should include all new agreements received that cover periods beginning October 1, 2004.

If you have customer agreements that cross fiscal years, you will need to include the carryover balances (from FY04 to FY05) on your updated operating plan that is due on **November 12<sup>th</sup>**.

Once final carryover amounts are known and included on your FY05 operating plans, we will back out the FY04 balances, thus leaving the carryover balances only in your FY05 operating plan.

#### **FINANCIAL STATEMENTS**

Our office will be preparing the consolidated financial statements for the Fund. The Fund is required to prepare a Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing.

The format and breakdown of the statements prepared for the Fund will be different from the monthly statements you receive, however, the balances (net of intra-fund activity) will be the same. You can run your entity's FINAL YE financial statements in Discoverer on October 5<sup>th</sup>. These statements will include all September 2004 accruals and the estimated to actual YE adjusting entries that were posted in the SEP/04-04 AP.

They will not include any audit adjustments recommended by our auditors, if applicable. You will be notified if audit adjustments are recorded that impact your entity's final statements.